CARFINCO™

Third Quarter Report

Q3 2006

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006

CANADA'S LEADING SPECIALTY FINANCE INCOME FUND

A growth-oriented income trust, Carfinco focuses on providing consumer car loans to borrowers unable to obtain financing through traditional lending sources. A network of select independent and franchise dealerships offer Carfinco's payment plan to their customers who must, along with the vehicle, meet Carfinco's stringent credit criteria.

To Our Unitholders

Carfinco Income Fund continued its well-established pattern of growth during the third quarter of 2006, once again exceeding previous quarters' financial performance to post the most successful quarter in the Fund's history. As the Fund grows more prosperous, management continues to deliver value directly to unitholders through consistent distributions. We are now operational in nine of the ten provinces and demand for our distinct vehicle financing services remains strong. The recently announced increase in our senior credit facility will allow us to serve the growing number of Canadians turning to Carfinco to help them finance the purchase of their next vehicle.

Key financial measures for the Fund were all higher in the most recent reporting period.

Revenues for the third quarter of 2006 were $5.7 million, compared with $4.3 million for the same period in 2005. Net earnings stood at $1.6 million for Q3, in contrast to a figure of $1.3 million in Q3 last year. Earnings per fund unit were $0.09, an improvement over the $0.07 posted in the third quarter of 2005. For the 12th consecutive quarter, total earnings and earnings per fund unit have increased, while the annualized return on Unitholders' equity for the first nine months of 2006 came in at 52.9%.

Loan originations during the third quarter of 2006 increased 18.3% from the third quarter of 2005. Correspondingly, total finance receivables at the end of Q3 stood at $73.1 million, up 26.0% over the total of $58.0 million at this time last year.

Cash distributions to unitholders were increased again in the third quarter of this year. In September, Carfinco announced distributions to Unitholders would rise to $0.027 per unit per month. This was the fifth increase in our monthly distributions since June 2005 and followed similar increases in April and July of this year. The current distribution equates to an annualized run rate of $0.324 and brings the total year-to-date cash distribution per unit, as at October 31, to $0.253.

For the first nine months of fiscal 2006 the Fund distributed a total of $4.2 million to Unitholders, representing a 35.3% increase over the $3.1 million for the first nine months of fiscal 2005

Subsequent to the end of the third quarter, on October 4, 2006, we announced the successful completion of an amendment to Carfinco's bank credit facility. The amendment increased the maximum advance to $65 million from $50 million and extended the maturity date of the credit facility to October 4, 2008. At the end of the third quarter, the outstanding balance of the credit facility was $46.7 million.

The announcement on October 31, 2006, by Jim Flaherty, Minister of Finance, that the federal government plans to change the taxation of income trusts has caused much speculation within the marketplace. There is no immediate tax consequence to the Fund, as the proposed tax changes do not come into effect on existing trusts until 2011. The Fund will continue to execute its business plan of growing its finance receivables, which has been directly responsible for the Fund increasing its distributions to Unitholders ten times since January 2004.

On October 23, 2006, prior to the announcement by the Minister of Finance, Carfinco announced that it had filed a preliminary short form prospectus in connection with a marketed public offering of trust units. The Trustees are determining the feasibility of continuing with the public offering at this time.

As Carfinco heads into the final quarter of the year, the Fund's management team remains firmly committed to its singular focus of providing financing to non-prime vehicle purchasers. Agreements with two lending portals, Curomax and DealerAccess, announced earlier in 2006, are expected to increased loan originations starting in Q1 2007. The addition of a ninth province, Saskatchewan, will also positively affect our financial results going forward. Management is confident that these factors, coupled with existing strong demand, will continue to deliver superior returns and value to our Unitholders.

Sincerely,

Tracy Graf

TRACY GRAF
Chief Executive Officer

MANAGEMENT'S
DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of Carfinco Income Fund (the "Fund") should be read in conjunction with, and is qualified by, the Fund's audited consolidated financial statements for the years ended December 31, 2005 and 2004 and the accompanying notes to those consolidated financial statements contained in the 2005 Annual Report.

This analysis has been prepared taking into consideration information available to November 14, 2006.

This report contains certain forward-looking statements that involve a number of known and unknown risks, uncertainties and other factors that may cause actual results of events to differ materially from those anticipated in our forward-looking statements.

Overview

Carfinco Income Fund is an unincorporated open-end mutual fund trust established under the laws of Ontario by a Deed of Trust made as of August 26, 2002, as amended and restated on April 23, 2004. The Fund owns 100% of Carfinco Holdings Trust, a wholly owned unincorporated trust, established under the laws of Ontario and 100% of Carfinco Inc., a wholly owned subsidiary, established under the laws of Ontario. Carfinco Holdings Trust holds an 89.36% interest in Carfinco Limited Partnership, and Carfinco Inc. ("Carfinco") holds the remaining 10.64% interest, and is the general partner of Carfinco Limited Partnership. The Fund trades its trust units on the Toronto Stock Exchange under the symbol "CFN.UN."

The Fund, through Carfinco Limited Partnership, purchases loans, originated by select independent and franchise vehicle dealers to consumers buying late-model used automobiles. Since commencing the purchase of contracts in March 1997, the Fund (and formerly, Carfinco) has acquired more than $16.9 million in repair finance contracts and $195.8 million in vehicle purchase contracts. The Fund targets borrowers who are typically unable to obtain financing from traditional sources.

To fund the acquisition of receivables, the Fund uses its borrowings under its credit facility, as well as borrowings through subordinated debenture issuances. The Fund generates interest and fee income on its finance receivables and pays interest expense on borrowings under its credit facility and on outstanding subordinated debentures.

Results of Operations

The total revenue for the third quarter of 2006 was $5,737,547, an increase of $1,401,786 over the total revenue of $4,335,761 for the third quarter of 2005. Total revenue for the nine months ended September 30, 2006 was $15,843,356, an increase of $4,115,253 over the total revenue of $11,728,103 for the nine months ended September 30, 2005. The net earnings for the third quarter of 2006 were $1,648,737, an increase of $385,922 over the net earnings of $1,262,815 for the third quarter of 2005. Net earnings for the nine months ended September 30, 2006 was $4,591,803, an increase of $1,407,593 over the net earnings of $3,184,210 for the nine months ended September 30, 2005. The earnings per fund unit for the third quarter of 2006 were $0.09, an increase over the earnings per fund unit of $0.07 in the third quarter of 2005. Earnings per fund unit for the nine months ended September 30, 2006 were $0.25, an increase over the earnings per fund unit of $0.18 during the nine months ended September 30, 2005.

Overall, total revenue increased 32.3%, net earnings increased 30.6% and earnings per fund unit increased 28.6% from the third quarter of 2005 to the third quarter of 2006. Total revenue increased 35.1%, net earnings increased 44.2% and earnings per fund unit increased 38.9% from the nine months ended September 30, 2005 to the nine months ended September 30, 2006.

The Fund made cash distributions of 91.4% of its net earnings for the nine months ended September 30, 2006 compared to 97.4% of its net earnings for the nine months ended September 30, 2005.

The Fund commenced monthly cash distributions in April 2005 at the rate of $0.021 ($0.252 annually) per trust unit held. Prior to this, the Fund issued cash distributions on a quarterly basis. The monthly cash distribution rate increased twice during 2005, to $0.022 ($0.264 annually) in July 2005 and to $0.024 ($0.288 annually) in October 2005. The monthly cash distribution rate for the first quarter of 2006 was $0.024 and was increased to $0.025 ($0.300 annually) in April 2006, to $0.026 in July 2006 ($0.312 annually) and to $0.027 in September 2006 ($0.324 annually). The Fund intends to continue adjusting the cash distribution rate to efficiently distribute the Fund's net earnings and to distribute the Fund's remaining taxable income through the issuance of additional trust units and/or cash at year-end.

SUMMARY OF QUARTERLY INFORMATION

($000s for stated values, except percentages and per unit amounts)	**Q3 2006**	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Total revenue	5,738	5,290	4,815	4,677	4,336	3,974	3,419	3,232
Net earnings	1,649	1,547	1,396	1,304	1,263	1,084	838	806
Earnings per fund unit – basic and diluted	0.09	0.08	0.08	0.07	0.07	0.06	0.05	0.05
Finance receivables	73,073	68,676	62,932	61,134	57,995	53,308	47,635	42,654
Funds advanced on finance receivables	12,320	12,668	9,168	9,365	10,237	10,573	9,358	8,556
Allowance and dealer reserve	6,460	6,278	5,787	5,080	4,271	4,210	3,778	3,701
Allowance as % of finance receivables	8.8%	9.1%	9.2%	8.3%	7.4%	7.9%	7.9%	8.7%
Bank credit facility	46,684	43,878	40,869	39,060	37,182	33,420	30,897	27,661
Long term debt	2,600	1,600	500	500	–	–	4,150	3,925
Unitholders' equity	11,684	11,502	11,348	11,475	11,639	11,587	5,599	4,756
Fund units outstanding	18,519	18,519	18,519	18,579	18,361	18,361	15,429	15,404
Basic weighted average fund units	18,579	18,579	18,579	18,579	18,579	18,163	15,646	15,622
Book value per fund unit	0.63	0.62	0.61	0.62	0.63	0.64	0.36	0.30

Revenue

Revenues increased by $1,401,786, or 32.3%, from the third quarter of 2005 to the third quarter of 2006 and by $4,115,253, or 35.1%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. As well, revenues increased by $447,120, or 8.5%, from the second quarter of 2006 to the third quarter of 2006.

Interest income increased $966,310, or 25.5%, from the third quarter of 2005 to the third quarter of 2006 and increased by $2,629,226, or 25.6%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. As well, interest income increased by $457,006, or 10.6%, from the second quarter of 2006 to the third quarter of 2006. Overall, the increase in interest income is directly related to the growth in the finance receivable portfolio.

Administration fee income increased $435,476, or 78.8%, from the third quarter of 2005 to the third quarter of 2006 and by $1,486,027, or 102.1%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. The Fund defers administration fees charged to the customer, in excess of the costs incurred, on the origination of finance receivables. The net fee is then recorded to income on an effective yield basis over the expected life of the contracts originated.

Revenues are anticipated to move in conjunction with the growth in the finance receivable portfolio. The larger portfolio generates additional interest income and origination and collection activity generates additional administration fee income.

Expenses

Expenses increased by $1,015,864, or 33.1%, from the third quarter of 2005 to the third quarter of 2006 and by $2,707,660, or 31.7%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. As well, expenses increased by $345,401, or 9.2%, from the second quarter of 2006 to the third quarter of 2006.

The interest expense increased $366,852, or 79.8%, from the third quarter of 2005 to the third quarter of 2006 and increased by $641,943, or 44.0%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. Overall, the increases are due to increases in the average prime interest rate, to increases in the average outstanding credit facility and to increases in the average outstanding subordinated debentures balance.

The financing fees increased $6,403, or 50.9%, from the third quarter of 2005 to the third quarter of 2006 and increased by $24,031, or 79.2%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006.

The provision for credit losses increased $89,317, or 6.3%, from the third quarter of 2005 to the third quarter of 2006 and increased by $320,045, or 8.3% from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. The $1,501,972 (third quarter 2005 – $1,412,655) provision for the third quarter of 2006 is comprised of $1,341,972 (third quarter 2005 – $1,202,705) in net write-offs and a $160,000 (third quarter 2005 – $209,950) increase in the allowance for credit losses.

The amortization increased $8,933, or 58.9%, from the third quarter of 2005 to the third quarter of 2006 and decreased by $2,061, or 3.3%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. Purchases of capital assets were $71,353 during the third quarter of 2006 compared to $37,776 for the third quarter of 2005.

General and administrative expenses increased $544,359, or 46.4%, from the third quarter of 2005 to the third quarter of 2006 and by $1,723,702, or 54.8%, from the nine months ended September 30, 2005 to the nine months ended September 30, 2006. The increase in general and administrative expenses is due to the overall expansion of the operational structure to accommodate the growth in the finance receivable portfolio. Specifically, salaries and benefits costs have increased as a result of higher staffing levels and loan administration costs have increased due to higher funding volumes.

Asset Review

Total assets increased by $10,606,057, or 18.7%, to $67,244,702 at September 30, 2006 from $56,638,645 at December 31, 2005 and by $12,757,892, or 23.4%, from $54,486,810 at September 30, 2005. Non-portfolio assets increased $47,257, or 8.1%, from $584,211 at December 31, 2005 to $631,468 at September 30, 2006 and decreased by $130,721, or 17.2%, from $762,189 at September 30, 2005.

The finance receivables grew during the nine months ended September 30, 2006 by $11,939,297, or 19.5%, over the balance at December 31, 2005 and by $15,078,244, or 26.0%, over the balance at September 30, 2005. As well, the finance receivables grew by $4,397,296, or 6.4%, during the third quarter of 2006 compared to 9.1% during the second quarter and 2.9% in the first quarter of 2006. Funds advanced on finance receivables during the nine months ended September 30, 2006 amounted to $34,155,648 compared to $30,167,850 for the nine months ended September 30, 2005; an increase of $3,987,798, or 13.2%. As well, the funds advances on finance receivables decreased by $348,405, or 2.8%, from the second quarter to the third quarter of 2006. The Fund's strategy is to produce growth in the finance receivables portfolio through geographic and dealer network expansion. Management has taken steps to increase funding volume in 2006 by hiring dealer representatives in new geographic markets. The Fund continues to adhere to consistent underwriting standards to achieve portfolio growth.

All finance receivables are secured, under the applicable provincial personal property registry, by motor vehicle collateral. The increase in the size of the finance receivable portfolio is due to the Fund's expansion in the non-prime sector of the auto finance industry. The Fund's strategy continues to be that of the alternative lender to major financial institutions in the higher-risk used vehicle finance market.

The Fund's allowance for credit losses, including dealer reserve, increased $1,380,497, or 27.2%, to $6,460,192 at September 30, 2006 from December 31, 2005 and by $2,189,631, or 51.3%, from September 30, 2005. Allowance for credit losses, including dealer reserve, as a percent of finance receivables was 8.8% at September 30, 2006, 8.3% at December 31, 2005 and 7.4% at September 30, 2005. The Fund will continue to monitor its credit loss experience and make additional provisions, as it deems appropriate.

The Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The allowance for credit losses consists of accumulated specific and

general components, which are deducted from the finance receivable portfolio. In addition to the allowance for credit losses, a dealer reserve has been established using dealer discounts to absorb potential credit losses. The provision for credit losses is adjusted to the extent actual credit losses exceed, or are less than the Fund's total loss reserves. The Fund believes that the allowance for credit losses is currently adequate to absorb losses existing in the finance receivable portfolio.

The Fund's finance receivable portfolio is composed of a large number of homogenous consumer loans, with relatively small balances, originated in the same industry, and as such, the evaluation of the allowance for credit losses is performed collectively for the group. The estimated allowance for credit loss requirements is determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, the historical industry ratios of write-offs, and the Fund's current write-off and recovery experience.

Liability Review

Total liabilities increased by $10,396,566, or 23.0%, to $55,560,689 at September 30, 2006 from $45,164,123 at December 31, 2005 and by $12,712,925, or 29.7%, from $42,847,764 at September 30, 2005.

The deferred administration fee balance increased during the nine months ended September 30, 2006 by $331,914, or 13.5%, from the balance at December 31, 2005 and increased by $579,974, or 26.1%, over the balance at September 30, 2005. The increase in 2006 is due to the growth in the finance receivable portfolio and to the increased use of finance programs charging a higher fee to the dealer. The deferred administration fee balance includes the deferral of fees charged to the customer, in excess of costs incurred, and fees charged to the dealer. These fees are recognized as income on an effective yield basis over the expected life of the contracts originated.

The deferred dealer obligation balance increased during the nine months ended September 30, 2006 by $56,517, or 2.4%, from the balance at December 31, 2005 and decreased by $349,379, or 12.8%, from the balance at September 30, 2005. The marginal increase from the balance at December 31, 2005 compared to the growth in the finance receivable portfolio is due to the continuing assessment of the deferred dealer obligation. The decrease from the balance at September 30, 2005 was due to adjustments in the fourth quarter of 2005 made as a result of analysis of the deferred dealer obligation balance performed using additional historical performance information on the portfolio.

The Fund purchases certain finance receivables at a discount. The dealer has a vested interest in the performance of these finance receivables and can receive additional purchase consideration based on the collections from these finance receivables. The deferred dealer obligation represents the discount owed to the dealers, adjusted for estimated losses. The interest revenue is adjusted to the extent that the actual obligation exceeds or is less than this deferred dealer obligation.

Delinquency and Losses

Credit losses, delinquency and provision, as at, and for each of the respective periods, were as follows:

($000s for stated values, except percentages)	SEPTEMBER 30, 2006	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Finance receivables outstanding at period end	$ 73,073	$ 61,134	$ 57,995
Average finance receivables for the quarter	$ 70,875	$ 59,565	$ 55,651
Nonperforming finance receivables at period end (1)	$ 299	$ 269	$ 279
Nonperforming percentage at period end	0.4%	0.4%	0.5%
Delinquent finance receivables at period end (2)	$ 1,707	$ 1,574	$ 1,461
Delinquent percentage at period end	2.3%	2.6%	2.5%
Allowance and reserve as a percentage of the finance receivables	8.8%	8.3%	7.4%
Continuity of allowance for credit losses (for the three months ended):			
Allowance, beginning of period	$ 3,610	$ 3,370	$ 3,160
Provision for credit losses	1,502	1,411	1,413
Write-offs	(1,755)	(1,760)	(1,528)
Recoveries	413	439	325
Allowance, end of period	$ 3,770	$ 3,460	$ 3,370
Continuity of dealer reserve (for the three months ended):			
Reserve, beginning of period	$ 2,668	$ 900	$ 1,050
Reserve on new volume	1,163	1,467	527
Write-offs	(1,310)	(877)	(715)
Recoveries	169	129	38
Reserve, end of period	$ 2,690	$ 1,619	$ 900

(1) Nonperforming finance receivables are greater than 90 days contractually past due on their scheduled payments.
(2) Delinquent finance receivables are greater than 60 days contractually past due on their scheduled payments.

The Fund originates transactions in a relatively high-risk segment of the consumer finance industry; therefore, write-offs are anticipated. The management of the Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The Fund reviews static pool origination, historical industry ratios of write-offs, current write-offs and recovery experience, estimates of the underlying collateral value, and economic conditions and trends to make the necessary judgements as to the appropriateness of the allowance for loan losses. Although the Fund uses many resources to assess the adequacy of loss reserves, there is no precise method for estimating the losses existing in the finance receivable portfolio.

Liquidity and Capital Resources

The Fund's primary sources of cash have been: cash flows from operating activities; borrowings under its credit facility; and the issuance of debt and equity. The Fund's primary uses of cash have been the funding of advances on finance receivables and the purchase of certain capital assets. Management believes that the resources available to the Fund provide the needed capital to fund the anticipated expansion of the finance receivable portfolio and investments in operating infrastructure for the remainder of fiscal 2006.

The Fund's capitalization at each period end are as follows:

($000s for stated values, except percentages)	SEPTEMBER 30, 2006	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Bank credit facility	$ 46,684	$ 39,060	$ 37,182
Accounts payable and accrued liabilities	874	737	627
Deferred dealer obligation	2,381	2,324	2,730
Total debt	$ 49,939	$ 42,121	$ 40,539
Unitholders' equity	$ 11,684	$ 11,475	$ 11,639
Deferred gain	224	77	90
Deferred costs	(36)	(62)	(63)
Long term debt	2,600	500	–
Total capitalization	$ 14,472	$ 11,990	$ 11,666
Financial leverage	3.45:1	3.51:1	3.47:1

The Fund manages its capital resources by maximizing the financial leverage available under the credit facility. When additional capital is required, it is raised through subordinated debenture or unit issuances.

Bank Credit Facility

The Fund executed a credit facility on November 27, 2002 with a national association of a foreign bank. The amount of borrowings available under this facility is $65,000,000, subject to a defined borrowing base and a maximum financial leverage ratio of 3.75:1. The bank credit facility is the primary source of cash for funding growth in the finance receivable portfolio. As at September 30, 2006, a total of $46,684,148 (December 31, 2005 – $39,059,586; September 30, 2005 – $37,181,577) was outstanding under the credit facility. The credit facility currently has a maturity date of October 4, 2008.

On October 4, 2006, the Fund executed an amendment to the bank credit facility. This amendment modified certain terms within the agreement. The amendment increased the maximum advance available from $50,000,000 to $65,000,000 and extended the maturity date from June 30, 2007 to October 4, 2008.

Long Term Debt

As at September 30, 2006, the Fund had outstanding $2,600,000 (December 31, 2005 – $500,000; September 30, 2005 – $nil) of 14% non-convertible subordinated debt. The subordinated debt is scheduled to mature on December 30, 2007. On April 8, 2005, the Fund redeemed $4,150,000 of 16% non-convertible subordinated debt using proceeds from the issuance of additional trust units.

Unitholders' Equity

The fund unit equity increased $209,491, or 1.8%, during the nine months ended September 30, 2006 from the balance at December 31, 2005 and increased $44,967, or 0.4%, from the balance at September 30, 2005. The changes in the fund unit equity are the result of differences between net earnings and cash distributions made and a unit purchase financing plan for key employees.

On April 13, 2005, the Fund closed a private placement of units. The combined gross proceeds of the initial closing on April 8, 2005 and the second closing on April 13, 2005 are $7,168,660, consisting of a total issuance of 2,757,177 units of the Fund at $2.60 per unit. The net proceeds of $6,837,708, after deducting issuance costs of $330,952, were used to repay subordinated indebtedness and borrowings under the bank credit facility.

As at September 30, 2006, the following units of the Fund were issued and outstanding:

Units	18,519,102
Units held for unit purchase financing	60,000

Distributions to Unitholders

($000s for stated values, except percentages)

NINE MONTHS ENDED	SEPTEMBER 30, 2006	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Net earnings	$ 4,592	$ 3,651	$ 3,185
Adjustments:			
Change in allowance for credit losses	310	582	641
Other	173	(115)	(4)
Reserves	(13)	113	(24)
Unit issue costs	(85)	(102)	(72)
	4,977	4,129	3,726
Amounts reinvested by the Fund	(781)	(295)	(625)
Cash distributions paid	$ 4,196	$ 3,834	$ 3,101
Cash distributions per fund unit	$ 0.226	$ 0.249	$ 0.169
Unit distributions per fund unit	$ –	$ 0.036	$ –

The Fund will distribute all or virtually all of its distributable cash each year, net of any reserve deemed prudent by the Trustees of the Fund. Cash distributions are determined as net earnings reconciled to taxable income of the Fund and is further adjusted for amounts reinvested by the Fund. Any taxable income not distributed to the unitholders in the form of cash during the year is distributed in the form of additional trust units and/or cash at year-end.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations is made with reference to the audited consolidated financial statements and the notes thereto for the year ended December 31, 2005. A summary of the Fund's significant accounting policies are presented in Note 2 to these consolidated financial statements. Some of our accounting policies, as required by generally accepted accounting principles, require management to make subjective, complex judgements and estimates to matters that are inherently uncertain. The Fund believes the following are the most critical accounting estimates that affect its operating results and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

REVENUE RECOGNITION

Interest income is recorded on an accrual basis. Fees, net of applicable costs, charged to the customer and to the dealer are deferred and then the deferred fee components are recognized as revenue and expense on an effective yield basis over the expected life of the contracts originated. Charges related to the subsequent administration of the finance receivables are recognized upon collection of funds.

ALLOWANCE FOR CREDIT LOSSES

The management of the Fund establishes and maintains an allowance for credit losses, which it considers the best possible estimate of probable credit losses existing in the finance receivable portfolio. The provision for credit losses is adjusted to the extent actual credit losses exceed, or are less than the Fund's total loss reserves. The Fund's finance receivable portfolio is composed of a large number of homogenous consumer loans, with relatively small balances, originated in the same industry, and as such, the evaluation of the allowance for credit losses is performed collectively for the group. The estimated allowance for credit loss requirements is determined by assessing the individual finance receivables in arrears, the perceived effect of current economic conditions or other circumstances on the remaining finance receivables, the historical industry ratios of write-offs, and the Fund's current write-off and recovery experience.

DEFERRED DEALER OBLIGATION

The Fund purchases certain finance receivables at a discount. The dealer has a vested interest in the performance of these finance receivables and can receive additional purchase consideration based on the collections from these finance receivables. The deferred dealer obligation represents the discount owed to the dealers, adjusted for estimated losses. The interest revenue is adjusted to the extent that the actual obligation exceeds or is less than this deferred dealer obligation. The amount of the deferred dealer obligation is based on future events and, as such, requires management to make judgements and estimates based on historical portfolio experience.

Related Party Transactions – Patica Securities Limited

The Fund has an agreement with Patica Securities Limited for services provided on an on-going basis. Carfinco LP entered into a Consulting Services Agreement with Patica Securities Limited on October 1, 2003 and pursuant to this agreement Carfinco LP commenced incurring a fixed monthly fee of $13,375 and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables. In management's opinion, the fee represents fair value for services provided. During the nine months ended September 30, 2006, payments of $223,466 (nine months ended September 30, 2005 – $198,865) were made to Patica Securities Limited and at September 30, 2006, there was $26,009 (December 31, 2005 – $24,126, September 30, 2005 – $23,589) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees and/or unitholders of the Fund.

Related Party Transactions – Debenture Holders

During fiscal 2005, the Fund issued 16% debentures in the aggregate principal amount of $250,000 to related parties. The Fund also had 16% debentures in the aggregate principal amount of $225,000 outstanding to related parties that were issued in previous years. All of the 16% debentures were redeemed by the Fund on April 8, 2005.

Also, during fiscal 2005, the Fund issued 14% debentures in the aggregate principal amount of $500,000 to related parties. During the nine months ended September 30, 2006, the Fund has issued an additional $1,225,000, in 14% debentures, to related parties, of which $100,000 was redeemed by the Fund on June 8, 2006. All of the remaining 14% debentures were outstanding as at September 30, 2006 (September 30, 2005 – $nil).

During the nine months ended September 30, 2006, the Fund incurred interest expense of $71,189 (nine months ended September 30, 2005 – $15,777) related to debentures with related parties.

These related parties were either Trustees and/or Officers of the Fund or family members of Trustees and/or Officers of the Fund. The related party transactions occurred at the exchange amount, which is the consideration established and agreed to by the related parties.

Financial Instruments

The Fund utilizes interest rate swap agreements in order to reduce the impact of fluctuating interest rates on its short-term debt. These swap agreements require the monthly exchange of payments without the exchange of the notional principal amount on which the payments are based. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

On September 1, 2005, the Fund entered into an interest rate swap agreement with a notional amount of $20,000,000, a fixed bankers acceptance rate of 3.32% and a three year term. On August 24, 2006, this agreement was terminated and a gain of $366,000 was realized. Upon termination, the three year agreement had 25 months remaining on the term of the original contract life.

On May 30, 2006, the Fund entered into an interest rate swap agreement with a notional amount of $15,000,000, a fixed bankers acceptance rate of 4.66% and a three year term. On August 23, 2006, this agreement was terminated and a loss of $166,500 was realized. Upon termination, the three year agreement had 34 months remaining on the term of the original contract life.

A gain or loss on termination of an interest rate swap agreement is deferred on the balance sheet and amortized as an adjustment to interest expense related to the obligation over the remaining term of the original contract life of the terminated swap agreements. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the consolidated statement of earnings at the time of extinguishment.

Contractual Obligations

The Fund is committed to a long term operating lease for building space. The minimum annual lease payments plus estimated operating costs required for the remainder of 2006 and the next five years are as follows: $45,200 for 2006, $276,300 for 2007, $276,300 for 2008, $301,400 for 2009, $301,400 for 2010 and $301,400 for 2011.

Income Tax Matters

On October 31, 2006, the Minister of Finance announced the proposed Tax Fairness Plan for Canadians that includes a tax on distributions from publicly traded income trusts and limited partnerships. Existing publicly traded income trusts, such as Carfinco Income Fund, would not be subject to the proposed tax until their 2011 taxation year.

The proposed changes effectively cause distributions that would have been paid out and taxed as income in the hands of the unitholders to change. Under the new rules, the distributions will first be taxed at the Trust level at a special rate, based on the federal-provincial income tax rate, estimated at 31.5% in 2011. The net amount would then be paid out to unitholders where it will be taxed as taxable dividends by a Canadian corporation.

Disclosure Controls

Pursuant to Multilateral Instrument 52-109, “Certification of Disclosures in Issuers’ Annual and Interim Filings”, management has evaluated the effectiveness of the Fund’s disclosure controls and procedures and concluded that such controls and procedures are effective, as of the end of the period covered by this report.

Cautionary Statement

This interim report may contain certain forward-looking statements, including statements regarding the business and anticipated financial performance of Carfinco Income Fund. These statements are subject to a number of risks and uncertainties. Actual results may differ materially from results contemplated by the forward-looking statements. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and should not place undue reliance on such forward-looking statements. Carfinco Income Fund does not undertake to update any forward-looking statements, oral or written, made by itself or on its behalf.

Additional information relating to the Fund, including its Annual Information Form, is available on the Fund’s website at www.carfinco.com and on SEDAR at www.sedar.com.

CONSOLIDATED
BALANCE SHEETS

	SEPTEMBER 30, 2006 (unaudited)	DECEMBER 31, 2005 (audited)	SEPTEMBER 30, 2005 (unaudited)
ASSETS			
Finance receivables (Note 2)	$ 73,073,426	$ 61,134,129	$ 57,995,182
Allowance for credit losses (Note 3)	(3,770,000)	(3,460,450)	(3,370,450)
Dealer reserve (Note 4)	(2,690,192)	(1,619,245)	(900,111)
Finance receivables – net	66,613,234	56,054,434	53,724,621
Cash and cash equivalents	173,726	251,621	432,349
Other assets	115,686	43,210	79,314
Capital assets	306,155	227,269	188,022
Deferred costs	35,901	62,111	62,504
	631,468	584,211	762,189
	$ 67,244,702	$ 56,638,645	$ 54,486,810
LIABILITIES			
Bank credit facility (Note 5)	$ 46,684,148	$ 39,059,586	$ 37,181,577
Accounts payable and accrued liabilities	873,736	737,098	627,478
Deferred administration fees	2,798,374	2,466,460	2,218,400
Deferred dealer obligation (Note 6)	2,380,917	2,324,400	2,730,296
Deferred gain	223,514	76,579	90,013
Long term debt (Note 7)	2,600,000	500,000	–
	55,560,689	45,164,123	42,847,764
UNITHOLDERS' EQUITY			
Fund unit equity (Note 8)	11,684,013	11,474,522	11,639,046
	$ 67,244,702	$ 56,638,645	$ 54,486,810

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF **EARNINGS AND EQUITY**

	THREE MONTHS ENDED SEPTEMBER 30, 2006 (unaudited)	THREE MONTHS ENDED SEPTEMBER 30, 2005 (unaudited)	NINE MONTHS ENDED SEPTEMBER 30, 2006 (unaudited)	NINE MONTHS ENDED SEPTEMBER 30, 2005 (unaudited)
REVENUES				
Interest income	$ 4,749,313	$ 3,783,003	$ 12,902,365	$ 10,273,139
Administration fees	988,234	552,758	2,940,991	1,454,964
	5,737,547	4,335,761	15,843,356	11,728,103
EXPENSES				
Interest	826,613	459,761	2,102,016	1,460,073
Financing fees	18,981	12,578	54,379	30,348
Provision for credit losses	1,501,972	1,412,655	4,168,066	3,848,021
Amortization	24,099	15,166	60,056	62,117
General and administrative	1,717,145	1,172,786	4,867,036	3,143,334
	4,088,810	3,072,946	11,251,553	8,543,893
NET EARNINGS	$ 1,648,737	$ 1,262,815	$ 4,591,803	$ 3,184,210
FUND UNIT EQUITY, BEGINNING OF PERIOD	$ 11,502,127	$ 11,587,014	$ 11,474,522	$ 4,755,586
Net earnings	1,648,737	1,262,815	4,591,803	3,184,210
Change in fund units in period (Note 8)	(1,466,851)	(1,210,783)	(4,382,312)	3,699,250
FUND UNIT EQUITY, END OF PERIOD	$ 11,684,013	$ 11,639,046	$ 11,684,013	$ 11,639,046
EARNINGS PER FUND UNIT				
Basic and diluted	$ 0.09	$ 0.07	$ 0.25	$ 0.18

See accompanying notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF **CASH FLOWS**

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2006	2005	**2006**	2005
Increase (decrease) in cash and cash equivalents	(unaudited)	(unaudited)	(unaudited)	(unaudited)
OPERATING				
Net earnings	$ 1,648,737	$ 1,262,815	$ 4,591,803	$ 3,184,210
Adjustments to reconcile net earnings to net cash from operations:				
Provision for credit losses	1,501,972	1,412,655	4,168,066	3,848,021
Amortization	24,099	15,166	60,056	62,117
Accrued interest	(1,208)	(47,182)	(8,819)	(116,919)
Administration fees receivable	(676,721)	(560,273)	(2,223,978)	(1,945,388)
Other assets	7,744	24,047	(72,476)	(26,622)
Deferred costs	18,981	12,668	26,210	(25,200)
Accounts payable and accrued liabilities	(84,295)	54,264	136,638	116,218
Deferred administration fees	169,956	288,766	331,914	1,018,896
Deferred dealer obligation adjustment	75,000	–	330,000	–
Deferred gain	173,800	(13,433)	146,935	(40,299)
	2,858,065	2,449,493	7,486,349	6,075,034
INVESTING				
Funds advanced on finance receivables	(12,319,648)	(10,236,826)	(34,155,648)	(30,167,850)
Principal collections on finance receivables	7,247,114	5,316,427	21,388,096	14,863,226
Purchase of capital assets	(71,353)	(37,776)	(138,942)	(86,243)
	(5,143,887)	(4,958,175)	(12,906,494)	(15,390,867)
FINANCING				
Advances on bank credit facility	4,505,890	3,761,816	9,924,562	10,720,253
Repayments on bank credit facility	(1,700,000)	–	(2,300,000)	(1,200,000)
Issuance of long term debt	1,000,000	–	2,200,000	250,000
Repayment of long term debt	–	–	(100,000)	(4,175,000)
Advances on unit purchase financing	–	–	(186,000)	–
Repayments on share purchase financing	–	–	–	36,282
Fund units issued on private placement	–	–	–	7,168,660
Fund unit issue costs	–	212	–	(405,179)
Fund trust unit cash distribution	(1,466,851)	(1,210,995)	(4,196,312)	(3,100,513)
	2,339,039	2,551,033	5,342,250	9,294,503
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	53,217	42,351	(77,895)	(21,330)
CASH AND CASH EQUIVALENTS				
Beginning of period	120,509	389,998	251,621	453,679
End of period	$ 173,726	$ 432,349	$ 173,726	$ 432,349
SUPPLEMENTAL CASH FLOW INFORMATION				
Interest paid	$ 826,613	$ 459,761	$ 2,094,613	$ 1,475,953

See accompanying notes to the Consolidated Financial Statements.

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2006 (UNAUDITED)

1

Summary of Significant Accounting Policies

Carfinco Income Fund (the “Fund”) is an unincorporated open-end mutual fund trust established under the laws of the Province of Ontario by a Deed of Trust made as of August 26, 2002, as amended and restated on April 23, 2004. The Fund owns 100% of Carfinco Holdings Trust (“CHT”), a wholly owned unincorporated trust, established under the laws of Ontario and 100% of Carfinco Inc. (“CAR”), a wholly owned subsidiary, established under the laws of Ontario. CHT holds 89.36% and is the limited partner of Carfinco Limited Partnership (“Carfinco LP”) and CAR holds the remaining 10.64% and is the general partner of Carfinco LP. Carfinco LP is in the business of providing consumer financing for vehicle purchases. The units of the Fund are publicly traded on the Toronto Stock Exchange, under the symbol “CFN.UN.”

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Although these interim consolidated financial statements have been prepared following the same accounting policies and methods used in the preparation of the Fund’s most recent annual financial statements for the year ended December 31, 2005, these interim financial statements and the notes thereto do not include all information and disclosures required under generally accepted accounting principles for annual financial statements. Accordingly, these interim consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and the notes thereto in the Fund’s annual report for the year ended December 31, 2005.

2

Finance Receivables

Finance receivables consist of conditional sales contracts, which have terms of 12 to 60 months with fixed rates of interest. Each individual finance receivable is collateralized by a vehicle.

The contractual payments, including principal and interest, and the average stated interest rates, are due as follows:

	SEPTEMBER 30, 2006	AVERAGE STATED INTEREST RATE	DECEMBER 31, 2005	AVERAGE STATED INTEREST RATE	SEPTEMBER 30, 2005	AVERAGE STATED INTEREST RATE
2005					$ 6,859,908	28.7%
2006	$ 8,709,941	27.5%	$ 28,495,469	28.3%	26,517,626	28.7%
2007	34,081,614	27.6%	26,736,255	28.4%	24,602,322	28.7%
2008	31,449,737	27.7%	23,175,189	28.5%	20,802,313	28.8%
2009	24,471,800	27.9%	14,318,962	28.8%	11,482,788	29.0%
2010	12,696,591	28.6%	3,644,341	29.4%	2,251,956	29.5%
2011	3,154,756	29.4%	–		–	
Gross finance receivables	114,564,439		96,370,216		92,516,913	
Unearned interest income	(42,345,808)		(36,082,063)		(35,252,997)	
Principal of finance receivables	72,218,631		60,288,153		57,263,916	
Accrued interest	854,795		845,976		731,266	
Finance receivables	$ 73,073,426		$ 61,134,129		$ 57,995,182	

The Fund's experience has shown that the actual contractual payment stream will vary depending on a number of variables. These variables include prepayment rates, charge offs and deferments. Accordingly, the maturities of finance receivables shown in the table above are not to be regarded as a forecast of future cash collections.

As of September 30, 2006, December 31, 2005 and September 30, 2005, the amount of principal of finance receivables classified as nonperforming amounted to $299,172, $268,760 and $278,573, respectively. These finance receivables have been fully provided for in the allowance for credit losses.

3

Allowance for Credit Losses

	THREE MONTHS ENDED		NINE MONTHS ENDED		
	SEPTEMBER 30, 2006	SEPTEMBER 30, 2005	**SEPTEMBER 30, 2006**	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Allowance, beginning of period	$ 3,610,000	$ 3,160,500	$ 3,460,450	$ 2,879,000	$ 2,729,000
Provision for credit losses	1,501,972	1,412,655	4,168,066	4,193,815	3,848,021
Write-offs	(1,754,545)	(1,528,021)	(5,325,350)	(4,754,708)	(4,188,020)
Recoveries	412,573	325,316	1,466,834	1,142,343	981,449
Allowance, end of period	$ 3,770,000	$ 3,370,450	$ 3,770,000	$ 3,460,450	$ 3,370,450

4

Dealer Reserve

	THREE MONTHS ENDED		NINE MONTHS ENDED		
	SEPTEMBER 30, 2006	SEPTEMBER 30, 2005	**SEPTEMBER 30, 2006**	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Reserve, beginning of period	$ 2,668,172	$ 1,049,750	$ 1,619,245	$ 899,135	$ 971,832
Reserve on new volume	1,163,247	526,999	4,041,795	2,511,160	1,371,943
Write-offs	(1,310,343)	(715,435)	(3,438,715)	(2,002,908)	(1,565,997)
Recoveries	169,116	38,797	467,867	211,858	122,333
Reserve, end of period	$ 2,690,192	$ 900,111	$ 2,690,192	$ 1,619,245	$ 900,111

5

Bank Credit Facility

	SEPTEMBER 30, **2006**	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Bank credit facility	$ 46,684,148	$ 39,059,586	$ 37,181,577

The bank credit facility is a demand loan, which is the lesser at any time of: a) $50,000,000 and b) the total of an advance rate applied to the value of acceptable outstanding finance receivables. The credit facility bears interest at prime plus 1.0%. The stated maturity date of the credit facility is June 30, 2007. The collateral security lodged by the Fund to support the credit facility is a general security agreement covering all property held by the Fund. The terms of the credit facility provide for certain covenants, all of which the Fund was in compliance with at September 30, 2006.

On October 4, 2006, the Fund executed an amendment to the bank credit facility. This amendment modified certain terms within the agreement. The amendment increased the maximum advance available to $65,000,000 from $50,000,000 and extended the maturity date of the credit facility to October 4, 2008.

6

Deferred Dealer Obligation

	THREE MONTHS ENDED		NINE MONTHS ENDED		
	SEPTEMBER 30, **2006**	SEPTEMBER 30, 2005	SEPTEMBER 30, **2006**	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Deferred dealer obligation, beginning of period	$ 2,339,132	$ 2,218,346	$ 2,324,400	$ 1,793,638	$ 1,477,985
Deferred dealer obligation on new volume	215,000	541,453	334,000	608,908	1,323,362
Advances	(173,215)	(29,503)	(277,483)	(78,146)	(71,051)
Deferred dealer obligation, end of period	$ 2,380,917	$ 2,730,296	$ 2,380,917	$ 2,324,400	$ 2,730,296

7

Long Term Debt

	SEPTEMBER 30, 2006	DECEMBER 31, 2005	SEPTEMBER 30, 2005
14% debentures, maturing on December 30, 2007	$ 2,600,000	$ 500,000	$ –

8

Fund Unit Equity

AUTHORIZED

The Fund's Deed of Trust provides that an unlimited number of trust units may be authorized and issued. Each trust unit is transferable, carries the right to one vote and represents an equal undivided beneficial interest in any distribution from the Fund and in the net assets of the Fund in the event of termination or winding-up of the Fund. All trust units are of the same class with equal rights and privileges.

NINE MONTHS ENDED	SEPTEMBER 30, 2006		DECEMBER 31, 2005		SEPTEMBER 30, 2005	
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
Fund unit equity, beginning of period	18,579,102	$ 11,474,522	15,428,601	$ 5,598,950	15,403,601	$ 4,755,586
Share purchase repayment	–	–	175,000	30,675	200,000	36,282
Unit purchase financing	(60,000)	(186,000)	–	–	–	–
Fund units issued on private placement	–	–	2,757,177	7,168,660	2,757,177	7,168,660
Fund unit issue costs	–	–	–	(406,247)	–	(405,179)
Fund unit distribution (unit issuance)	–	–	218,324	–	–	–
Fund unit distribution (cash distribution)	–	(4,196,312)	–	(4,568,572)	–	(3,100,513)
Change in units in the period	(60,000)	(4,382,312)	3,150,501	2,224,516	2,957,177	3,699,250
Net earnings for the period	–	4,591,803	–	3,651,056	–	3,184,210
Fund unit equity	18,519,102	$ 11,684,013	18,579,102	$ 11,474,522	18,360,778	$ 11,639,046

UNIT PURCHASE FINANCING

The Fund entered into unit loan agreements on March 31, 2006 with four individuals who are employees of the Fund. The loans have an aggregate principal amount of $186,000, bear interest at the prescribed interest rate, as set by the Canada Revenue Agency, and are repayable in full on March 31, 2009. The loans are secured by 60,000 trust units. As at September 30, 2006, the market value of the security was $249,000.

9

Related Party Transactions

PATICA SECURITIES LIMITED

The Fund has an agreement with Patica Securities Limited for services provided on an on-going basis. Carfinco LP entered into a Consulting Services Agreement with Patica Securities Limited on October 1, 2003 and pursuant to this agreement Carfinco LP commenced incurring a fixed monthly fee of $13,375 and a variable monthly fee of one-twelfth of 0.2% of the outstanding principal amount of the finance receivables. In managements' opinion, the fee represents fair value for services provided. During the nine months ended September 30, 2006, payments of $223,466 (nine months ended September 30, 2005 – $198,865) were made to Patica Securities Limited and at September 30, 2006, there was $26,009 (December 31, 2005 – $24,126, September 30, 2005 – $23,589) payable to Patica Securities Limited. Patica Securities Limited is controlled by individuals who are Trustees and/or unitholders of the Fund.

LONG TERM DEBT (DEBENTURES)

In fiscal 2002, the Fund issued debentures in the aggregate principal amount of $200,000 to family members of David Rosenkrantz, a Trustee of the Fund. On April 8, 2005, these debentures were redeemed by the Fund.

In fiscal 2003, the Fund issued a debenture in the aggregate principal amount of $25,000 to Tracy Graf, a Trustee and Officer of the Fund. On March 18, 2005, this debenture was redeemed by the Fund.

On February 18, 2005, the Fund issued debentures to related parties in the aggregate principal amount of $225,000. Of this amount, a debenture in the principal amount of $100,000 was issued to David Rosenkrantz, a Trustee of the Fund, a debenture in the principal amount of $100,000 was issued to David Prussky, a Trustee of the Fund, and a debenture in the principal amount of $25,000 was issued to a family member of Tracy Graf, a Trustee and Officer of the Fund. On March 18, 2005, the Fund issued a debenture in the principal amount of $25,000 to a family member of Tracy Graf, a Trustee and Officer of the Fund. On April 8, 2005, these debentures were redeemed by the Fund.

On December 12, 2005, the Fund issued debentures to related parties in the aggregate principal amount of $500,000. Of this amount, a debenture in the principal amount of $100,000 was issued to a family member of Tracy Graf, a Trustee and Officer of the Fund, a debenture in the principal amount of $100,000 was issued to Brent Channell, a Trustee of the

Fund, a debenture in the principal amount of $100,000 was issued to a family member of David Prussky, a Trustee of the Fund, a debenture in the principal amount of $100,000 was issued to a family member of Maurice Kagan, a Trustee of the Fund, and debentures in the aggregate principal amount of $100,000 to family members of David Rosenkrantz, a Trustee of the Fund.

On April 28, 2006, the Fund issued a debenture in the principal amount of $100,000 to a corporation controlled by David Rosenkrantz, a Trustee and Officer of the Fund. On June 8, 2006, this debenture was redeemed by the Fund.

On May 19, 2006, the Fund issued a debenture in the principal amount of $125,000 to Daryl MacLellan, a Trustee of the Fund. On September 1, 2006, the Fund issued a debenture in the principal amount of $500,000 to David Rosenkrantz, a Trustee of the Fund, and a debenture in the principal amount of $500,000 to a family member of David Prussky, a Trustee of the Fund.

During the nine months ended September 30, 2006, the Fund incurred interest expense of $71,189 (nine months ended September 30, 2005 – $15,777) related to debentures with related parties.

The related party transactions occurred at the exchange amount, which is the consideration established and agreed to by the related parties.

10

Fair Value of Financial Instruments

Refer to the December 31, 2005 Annual Report for disclosure related to financial instruments.

11

Subsequent Events

On October 4, 2006, the Fund executed an amendment to the bank credit facility. This amendment modified certain terms within the agreement. The amendment increased the maximum advance available to $65,000,000 from $50,000,000 and extended the maturity date of the credit facility to October 4, 2008.

On October 23, 2006, the Fund announced that it had filed a preliminary short form prospectus in connection with a marketed public offering of trust units. The Trustees are assessing the feasibility of continuing with the public offering.

UNITHOLDER INFORMATION

CARFINCO INCOME FUND
Whitemud Business Park
4245 – 97 Street, Suite 300
Edmonton, AB T6E 5Y7

LISTING
The Toronto Stock Exchange
Symbol: CFN.UN

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Tracy A. Graf
President and CEO, Carfinco
Edmonton, AB

David Prussky
Director, Patica Securities Limited
Toronto, ON

David Rosenkrantz
Director, Patica Securities Limited
Toronto, ON

J. Daryl MacLellan
President, CIT Canada
Toronto, ON

Brent Channell
Principal, Thales Alternative
Investments Inc.
Toronto, ON

Maurice Kagan
President, Sparkle Solutions
Income Fund
Toronto, ON

Simon Serruya
New Strategic Business Development,
Yogen Früz Canada Inc.
Toronto, ON

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(General Partner for Carfinco LP)

Troy S.F. Graf
Vice President, Carfinco Inc.

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Treasurer, Carfinco Inc.

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